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SIPDIS

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SUBJECT: EGYPT: 2006 INTERNATIONAL NARCOTICS CONTROL
STRATEGY REPORT (INCSR) PART II

REF: CAIRO 9167

Summary

1. Egypt is not a significant destination for money laundering or terrorist financing, due to its antiquated and cumbersome financial system. The Government of Egypt (GOE) has implemented reforms in the financial sector in 2005, but this modernization has not made Egypt more attractive to money launderers. Informal remittance systems, however, remain unregulated and are a potential means for money laundering. Egypt does not have an offshore banking sector or free trade zones. An Anti-Money Laundering Law passed in 2002 criminalized laundering of funds from a variety of predicate crimes, including terrorism. The law also created the Money Laundering Combating Unit (MLCU), Egypt's Financial Intelligence Unit (FIU). The MLCU shares responsibility with the Central Bank of Egypt (CBE) for monitoring of financial sector compliance with the Anti-Money Laundering Law and regulations. Various other GOE law enforcement agencies assist in money laundering investigations, depending on the predicate crime. The GOE cooperates with international efforts to stem terrorist financing, and monitors non-governmental organizations (NGOs), including charities, to prevent use of such entities to finance terrorism. End summary.

General Questions

2. Egypt is not considered a regional financial center, as its cumbersome, antiquated financial system makes it unattractive for banking and/or investment services. Egypt is therefore not a significant locus of money laundering. In 2005 the GOE continued financial sector reforms begun in 2004, with the aim of streamlining the financial sector. These reforms, however, have not produced an increase in the level of financial crime. Despite banking sector reform, Egypt is still largely a cash economy, and many financial transactions do not enter the banking system at all.

3. Of the three cases of money laundering that have reached the court system in Egypt, one was for proceeds from drug smuggling, and the other two were for proceeds from antiquities smuggling. All of these cases stemmed from domestic rather than foreign criminal activity, and involved individuals rather than groups.

4. While there is no significant market for illicit or smuggled goods in Egypt, authorities say that under-invoicing of imports and exports by Egyptian businessmen is a relatively common practice. The primary goal for businessmen who engage in such activity is the avoidance of taxes and customs fees. It is unclear to what extent price manipulation may be used for laundering the proceeds of other crimes. According to the Ministry of Finance, however, cuts in tariffs in September 2004, followed by cuts in income and business taxes in June 2005, have encouraged businesses to begin following proper procedures and regulations.

5. As noted above, money laundering/terrorist financing is not a significant phenomenon in Egypt, but informal remittance systems are unregulated and therefore a potential means for laundering funds. Egyptian authorities claim that informal remittances are not widespread in Egypt, but the number of remittances officially recorded by banks does not match the large number of Egyptians working overseas, in the Gulf and elsewhere. Many overseas workers may therefore use informal means to remit earnings, due to either lack of trust in or familiarity with banking procedures or to the lower costs associated with informal remittance systems. Due to the unregulated nature of informal remittance systems, it is unclear if and to what extent money laundering actually occurs through these systems. One conventional non-bank money transfer systems, Western Union, is starting to draw more customers. As noted above, despite reform in the financial sector, Egypt is not experiencing an

increase in other types of financial crime, such as fraud or counterfeiting.

16. Post is not aware of any Egyptian financial institutions that engage in currency transactions involving international narcotics trafficking proceeds in U.S. currency or currency derived from illegal drug sales in the U.S. or that otherwise affect the U.S.

----- Offshore Financial Centers -----

17. Egypt is not an offshore financial center. Offshore banks, international business companies and other forms of exempt or shell companies are not permitted in Egypt.

----- Free Trade Zones -----

18. Egypt has two types of free zones:

- Public free zones, which are specific geographic districts administered by the GOE. Public free zones house both state-owned and/or private enterprises, which receive duty-free status on imported inputs used in the manufacturing of goods for re-export. Currently there are ten public free zones in operation: Alexandria, Nasr City, Port Said, Suez, Ismailia, Damietta, The Media Zone, Shebin el Kom, Koft, and East Port Said.

- Private free zones, which are established for a specific project or company to undertake operations such as mixing, repackaging, assembly, and manufacturing for re-export. The current number of private free zones is not available, but as many as 177 companies have been designated as private free zones in recent years.

19. There is no indication that Egypt's free zones are being used for trade-based money laundering schemes or for financing terrorism. Companies in the public free zones are registered by the General Authority for Free Zones and Investment and monitored by the Ministry of Foreign Trade and Industry. The private free zones are under the direction and supervision of a special non-governmental Board of Directors.

----- Laws and Regulations to Prevent Money Laundering -----

10. In May 2002, Egypt passed the Anti-Money Laundering Law (Law No. 80 of 2002). The law does not take an "all serious crimes" approach, but criminalizes the laundering of funds from narcotics trafficking, prostitution and other immoral acts, terrorism, antiquities theft, arms dealing, organized crime, and numerous other activities. The law did not repeal Egypt's existing law on secrecy of bank accounts, but provided the legal justification for providing account information to responsible civil and criminal authorities. The law also provided for the establishment of the MLCU as Egypt's FIU, which officially began operating on March 1, 2003. In June 2003, the administrative regulations of the Anti-Money Laundering Law were issued as Prime Ministerial Decree No. 951/2003. The regulations provided the legal basis by which the MLCU derives its authority, spelled out the predicate crimes associated with money laundering, established a board of trustees to govern the MLCU, defined the role of supervisory authorities and financial institutions, and allowed for the exchange of information with foreign competent authorities.

----- Financial Sector -----

11. Upon its creation, the MLCU began to share responsibility with CBE's Bank Supervision Unit for supervising and examining compliance in the financial sector with anti-money laundering/terrorist financing regulations. In 2001, before passage of Egypt's Anti-Money Laundering Law, the CBE Banking Supervision Unit and other financial regulatory bodies issued a number of anti-money laundering instructions, including "know your customer" and "suspicious transaction reporting" (STR) requirements. With passage of the Anti-Money Laundering Law, banks were also required to keep all records for five years and numbered or anonymous financial accounts were prohibited. In March 2004, the CBE issued instructions requiring banks to establish internal systems enabling them to comply with the anti-money laundering laws. In addition, banks are now required to submit quarterly reports showing the progress made with respect to their anti-money laundering responsibilities.

12. The CBE also monitors closely bureaux de change and

money transmission companies for foreign exchange control purposes, with close scrutiny of accounts with transactions above certain limits. The Capital Market Authority (CMA), which is responsible for regulating the securities markets, has also undertaken inspection of firms under its jurisdiction. The inspections were aimed at explaining and discussing anti-money laundering regulations and obligations, as well as at evaluating the implementation of systems and procedures, including checking for an internal procedures manual and ensuring the appointment of compliance officers. An independent insurance regulatory authority is on the GOE's drawing board, and authorizing legislation will likely be submitted to parliament in 2006.

¶13. The executive regulations of the Anti-Money Laundering Law lowered the threshold for declaring foreign currency at borders from the equivalent of \$20,000 to \$10,000. The declaration requirement was also extended to travelers leaving as well as entering the country. Enforcement of this provision is uneven, but the Ministry of Finance claims that the terrorist attacks of the past year have given extra impetus to law enforcement agencies to thoroughly scrutinize currency imports/exports.

Financial Intelligence Unit

¶14. The MLCU, Egypt's FIU, is an independent entity within the CBE, and has its own budget and staff, and full legal authority to examine all STRs and conduct investigations with the assistance of counterpart law enforcement agencies, including the Ministry of Interior. Presidential Decree No. 164/2002, issued in June 2002, delineates the structure, functions, and procedures of the MLCU. The unit handles implementation of the Anti-Money Laundering Law, including publishing the executive directives. The MLCU takes direction from a five-member council, chaired by the Assistant Minister of Justice for Legislative Affairs. Other members include the chairman of the CMA, the Deputy Governor of the CBE, a representative from the Egyptian Banking Federation, and an expert in financial and banking affairs. In June 2004 the MLCU was admitted to the Egmont Group of FIUs.

¶15. On the administrative side, the Executive Director of the MLCU is responsible for the operation of the FIU and the implementation of the policy drafted by the Council of Trustees. His responsibilities include proposing procedures and rules to be observed by different entities involved in combating money laundering, and presenting them to the Chairman of the Council of Trustees; reviewing the regulations issued by supervisory authorities for consistency with legal obligations and to ensure they are up to date; ensuring the capability and readiness of the Unit's database; exchanging information with supervisory entities abroad; acting as point of contact within the GOE; preparing periodic and annual reports on the operational status of the Unit; and taking necessary action on STRs recommended to be reported to the office of the Public Prosecution.

¶16. Since its inception, the MLCU has received over a thousand STRs from financial institutions and has successfully brought three cases to court, one involving proceeds from drug smuggling and the other two involving proceeds from antiquities smuggling.

¶17. Money laundering investigations are carried out by one of the three law enforcement agencies in Egypt, according to the type of predicate offense involved. The Ministry of Interior, which has general jurisdiction for the investigation of money laundering crimes, has established a separate anti-money laundering (AML) department, which includes a contact person for the MLCU who coordinates with other departments within the ministry. The AML department works closely with the MLCU during investigations. It has established its own database to record all the information it received, including STRs, cases, and treaties. The Administrative Control Authority has specific responsibility for investigating cases involving the public sector or public funds. It also has a close working relationship with the MLCU. The third law enforcement entity, the National Security Agency, plays a more limited role in the investigation of money laundering cases, where the predicate offense threatens national security. The GOE established a national committee for coordinating issues regarding anti-money laundering, which held its first meetings in late

¶2005.

Terrorist Financing

¶18. As noted above, the Anti-Money Laundering Law criminalized money laundering related to terrorism. The GOE is in the process of replacing the Emergency Law, in place

since 1981, with an anti-terrorism law, which according to the MLCU, will include specific measures against terrorist financing.

19. The CBE circulates to all financial institutions the list of individuals and entities that have been included in the UN 1267 Sanctions Committee's consolidated list as being linked to Osama bin Laden, members of Al Qa'ida or the Taliban, and that the USG has designated under relevant authorities. No related assets have been identified, frozen, seized and/or forfeited in 2005.

20. In 2002, the GOE passed the Law on Civil Associations and Establishments (Law No. 84 of 2002), which governs the procedures for setting up NGOs, including their internal regulations, activities, and financial records. The law places restrictions on accepting foreign donations without prior permission from the proper authorities. Both the Ministry of Social Affairs and the CBE continually monitor the operations of domestic NGOs and charities to forestall funding of domestic and foreign terrorist groups. The GOE has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism.

International Cooperation

21. Because of its own historical problems with domestic terrorism, the GOE has sought closer international cooperation to counter terrorism and terrorist financing. The GOE has shown willingness to cooperate with foreign authorities in criminal investigations, whether they are related to terrorism or narcotics. In April 2004, citing the importance of the role that the FIU plays in fighting serious financial crimes, the GOE, pursuant to Prime Minister Decree No. 676/2004, decided to grant representatives from the MLCU membership in the Egyptian National Committee for International Cooperation in Combating Terrorism, which was established in 1998. The other members of the Commission are the Ministry of Justice, Ministry of Foreign Affairs, Ministry of Interior, and the National Security Agency.

22. The United States and Egypt have a Mutual Legal Assistance Treaty, which entered into force November 2001. Egyptian authorities have cooperated with U.S. efforts to seek and freeze terrorist assets, circulating to each of their financial institutions the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224. Information about financial and other assets frozen and/or seized in connection with money laundering and terrorist financing investigations is not a matter of public record in Egypt.

23. Egypt was one of the founding members the Middle East and North Africa Financial Action Task Force (MENA/FATF), a FATF-style regional body that promotes best practices to combat money laundering and terrorist financing in the region. In November 2004, Egypt was elected to a one-year term as the first Vice-President of MENA/FATF, which was inaugurated on November 30 in Bahrain by 14 Arab countries. Egypt is a party to the 1988 UN Drug Convention. In March 2004, it ratified the UN Convention against Transnational Organized Crime.

24. The GOE has continued implementing reforms in 2005 to address domestic and international concerns regarding deficiencies in its banking system and monetary policy. However, many financial institutions are still in need of further strengthening. The GOE must seek more law enforcement and judicial training in order to enhance its ability to follow suspicious activities through the entire investigative and judicial process; consider ways of improving MLCU feedback on STRs to reporting financial institutions; and more evenly enforce cross-border currency controls, including reporting requirements. Egypt should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

JONES